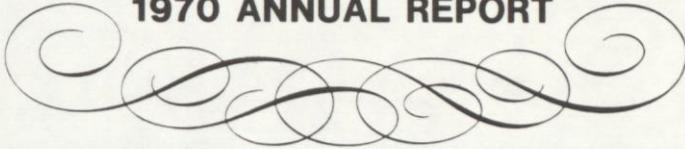
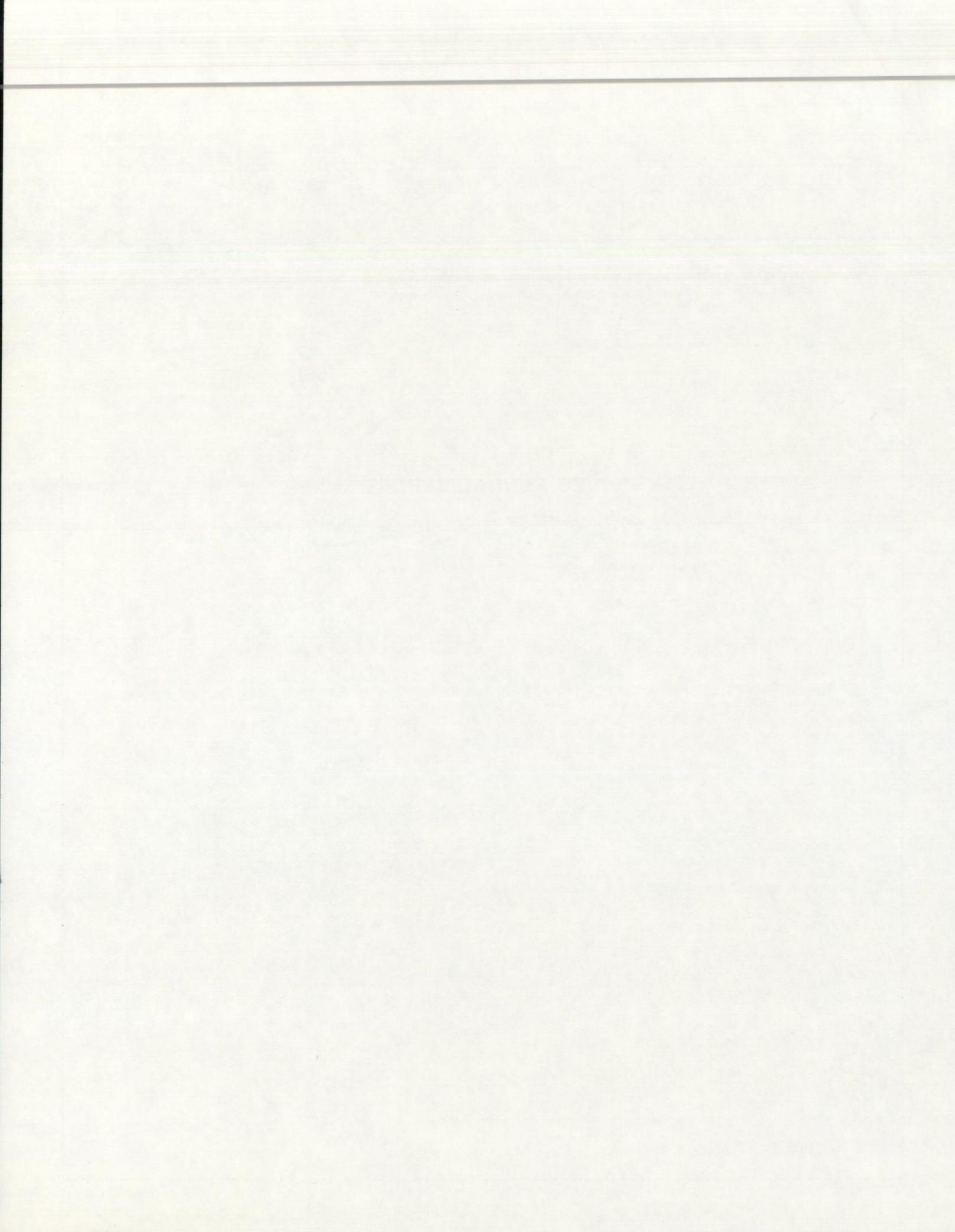


The Pizza Inn inc.
1970 ANNUAL REPORT





THE PRESIDENT'S LETTER

Dear Stockholder:

Many companies in the fast food industry suffered financial reverses during 1970. Your Company, too, experienced severe financial difficulties during the latter part of 1970 and the first part of 1971. At a time when The Pizza Inn, Inc. was pursuing a rapid expansion program, the national economic situation underwent an adverse change which we had not foreseen. Monies available to maintain the Company's expansion program and operational needs became extremely tight and, as a result, your Company suffered a severe liquidity crisis during the first quarter of 1971.

This past year has been a bitter and costly experience for The Pizza Inn, Inc. In March, 1971, as part of its efforts to ease its financial difficulties, your management entered into merger negotiations with Pizza Hut, Inc. but, as you are aware, these merger negotiations were terminated in May because of irreconcilable territory conflicts between the franchisees of the two companies.

Your management has taken positive steps seeking to correct the Company's financial problems. An austere cost reduction program has been instituted. Each of the Company's restaurant operations was examined for its contribution to profits. As a result, the Company has sold 11 restaurant operations and closed 10 others which were either marginally profitable or too difficult and expensive to supervise because of the restaurant's geographical location. Included in this cutback were all of the Company-owned Pepe Taco restaurants. Several vacated locations have been subleased and the Company is endeavoring to sublease the remaining locations as quickly as possible. Moreover, Kubler Sausage Company, an unprofitable subsidiary, has been sold. In addition to the closed and sold operations, the Company transferred to Pizza Hut, Inc. 21 restaurants owned by subsidiaries of the Company in settlement of the advances made in anticipation of the merger. The Company, as of this date, owns and operates 68 Pizza Inns, 6 Papa's Pizza Parlors, and 3 der Chees n' Wursts; and has 78 franchisees operating 125 stores.

The effectiveness of all Company personnel was also examined. Several executive and middle-management positions were eliminated and the duties assigned to other persons. The Company's field supervisory staff organization has been restructured and procedures instituted by which your management hopes the Company's operations will be continually upgraded and improved.

Cost controls have received the careful attention of management, and these controls have been instrumental in substantially reducing the Company's monthly corporate overhead. Additionally, the Company has negotiated a reduction of rent for its corporate headquarters building.

The management of your Company is gratified with the cooperation of its creditors in its attempts to resolve its liquidity problems. An agreement has been reached with a representative committee of creditors pursuant to which the Company will pay a minimum of \$20,000 per month on its past due debts with the expectation that such payments will continue over a term of not more than

twenty months. In addition, the Company will agree to many restrictive covenants (such as restrictions on the ability to merge, to borrow money, to increase compensation to its officers, to invest in capital improvements, et cetera, unless the prior consent of the creditors committee is obtained), and the creditors who become parties to the agreement will forebear pursuing any remedies to recover their indebtedness so long as the Company does not breach any of its agreements. The agreement has been executed by the Company and is presently being circulated to its unsecured creditors for adoption. To become effective, the agreement must be adopted by at least 80% in principal amount of the Company's unsecured debt.

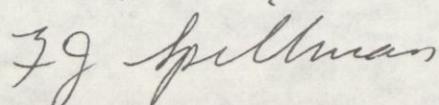
Despite the many difficulties and problems during 1970, the Company did achieve a record high in sales volume. Consolidated revenues exceeded \$11,000,000 and the trend of the sales volume in individual stores now owned by the Company is continuing upward in 1971. Your management believes that the corrective measures are beginning to be reflected in operating results. The Statement of Income of the Company for the six months ended June 30, 1971, is enclosed herewith, together with the audit report and financial statements for the year ended December 31, 1970. All non-recurring accounting and legal fees arising from the proposed Pizza Hut merger and the substantial expenses incurred by the Company prior to June 30, 1971, in connection with its liquidity problems are included in the 1971 expenses charged against operating revenues for this period. However, expenses for this period do not include a substantial loss relating to goodwill established on the books of the Company when the 21 restaurants transferred to Pizza Hut, Inc. were purchased. The Company will sustain this loss as a result of the transfer of the 21 restaurants to the Pizza Hut, Inc. on July 1, 1971. All details relating to the transaction have not been resolved and the precise accounting treatment of the transaction has not yet been determined. During the third quarter, the Company established a reserve against this loss in the amount of \$340,000. The management of the Company considers the reserve adequate, but recognizes that the loss could approach, but not exceed, \$500,000.

We are pleased to announce that, effective September 1, 1971, Mr. John W. Tenery has been employed by the Company as its Executive Vice President and is a nominee of management as a Director of your Company. We believe his broad range of experience and capability will contribute materially in the coming months to the business of the Company.

Your management faces the coming months with a strengthened optimism and confidence and will continue to strive for even greater efficiencies in operations. The Company will continue to seek greater sales volumes and increased profit margins while maintaining stringent cost controls.

Your management appreciates the confidence and support of its shareholders, creditors and franchisees, and the continued loyalty of its employees.

Sincerely,



F. J. Spillman
President

October 8, 1971

CONSOLIDATED BALANCE SHEET

The Pizza Inn, Inc. and Subsidiaries

	December 31 1970	December 31 1969
ASSETS		
CURRENT ASSETS		
Cash	\$ 456,361	\$ 355,598
Certificates of deposit - Note C	43,368	1,459,963
Receivables:		
Trade accounts	172,744	216,197
Royalties	29,597	32,267
Equipment note installments due within one year less related unearned discount	87,819	99,395
Allowance for doubtful accounts (deduction)	<u>(33,879)</u>	<u>(23,000)</u>
	256,281	324,859
Recoverable federal income taxes - Note D	90,000	-
Inventories - at lower of cost (first-in, first-out method) or market	752,541	593,136
Prepaid expenses	<u>272,225</u>	<u>246,666</u>
	1,870,776	2,980,222
OTHER ASSETS		
Due from officers - Note H	226,720	114,073
Equipment note installments due after one year less related unearned discount	329,271	289,400
Financing reserves relating to certain equipment notes	89,535	74,752
Prepaid interest applicable to long-term debt	292,055	199,602
Lease and utility deposits and other	<u>190,958</u>	<u>127,157</u>
	1,128,539	804,984
PROPERTY AND EQUIPMENT - on the basis of cost - Note C		
Land and buildings	829,832	74,398
Leasehold improvements	545,547	198,748
Fixtures and equipment	3,010,968	1,713,074
Allowances for depreciation (deduction)	(590,021)	(327,939)
Land acquired for future restaurant locations	430,779	480,450
Construction in progress (estimated cost to complete - 1970-\$50,000, 1969-\$175,000)	<u>327,651</u>	<u>125,000</u>
	4,554,756	2,263,731
INTANGIBLES - arising from excess of cost over fair value of assets purchased and goodwill arising in consolidation - Note B		
	1,696,489	1,435,372
DEFERRED FEDERAL INCOME TAXES - Note D	-	33,695
	<u>\$9,250,560</u>	<u>\$7,518,004</u>

The Pizza Inn, Inc. and Subsidiaries

	December 31 1970	December 31 1969
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable to bank - Note C	\$ 290,824	\$ 750,000
Trade accounts payable	1,052,777	422,050
Payable to building contractors	241,565	-
Accrued compensation and related taxes	592,933	281,551
Other accrued expenses	394,086	124,407
Franchise and equipment deposits	23,981	21,344
Federal and state income taxes - Note D	-	120,000
Current maturities of long-term debt	<u>1,385,830</u>	<u>558,168</u>
TOTAL CURRENT LIABILITIES	3,981,996	2,277,520
LONG-TERM DEBT - less current maturities - Note C	1,332,925	1,018,173
DEFERRED INCOME FROM FRANCHISE SALES - Note A	112,176	186,145
 STOCKHOLDERS' EQUITY		
Common Stock - par value \$1 a share in 1970, without par value in 1969 - Notes B and E:		
Authorized - 5,000,000 shares		
Issued and outstanding (including shares held in treasury) - 1970 - 1,521,765 shares, 1969 - 1,468,765 shares	1,521,765	3,089,614
Additional paid-in capital	2,647,702	814,853
Retained earnings - (deficit)	(109,679)	195,446
Less Common Stock in treasury - at cost (1970-91,975 shares, 1969-30,000 shares)	<u>(236,325)</u>	<u>(63,747)</u>
	3,823,463	4,036,166
 COMMITMENTS, CONTINGENT LIABILITIES, AND CERTAIN SUBSEQUENT EVENTS - Notes F, G, and I		
	\$9,250,560	\$7,518,004

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

The Pizza Inn, Inc. and Subsidiaries

	Year Ended December 31	
	1970	1969
Net sales	\$11,020,041	\$7,448,866
Cost of goods sold	<u>9,702,932</u>	<u>6,268,764</u>
	<u>1,317,109</u>	<u>1,180,102</u>
Monthly franchise royalties	318,396	269,454
Initial franchise fees - Note A	178,835	132,476
Other operating income	<u>137,389</u>	<u>140,341</u>
	<u>1,951,729</u>	<u>1,722,373</u>
Selling, administrative, and general expenses	<u>2,337,107</u>	<u>1,475,719</u>
	<u>(385,378)</u>	<u>246,654</u>
Interest income	<u>84,799</u>	<u>89,045</u>
	<u>(300,579)</u>	<u>335,699</u>
Interest expense - principally on long-term debt	<u>181,713</u>	<u>100,231</u>
	<u>(482,292)</u>	<u>235,468</u>
Federal and state income taxes (credits) - Note D	<u>(105,922)</u>	<u>71,908</u>
	<u>(376,370)</u>	<u>163,560</u>
Extraordinary gain (less applicable income taxes of \$23,000) - Note B	<u>71,245</u>	<u>-</u>
	<u>\$ (305,125)</u>	<u>\$ 163,560</u>
Per share (based on average number of shares of Common Stock outstanding - 1970-1,467,400, 1969-1,212,575):		
Net earnings (loss) before extraordinary item	\$ (.26)	\$.13
Extraordinary gain	.05	-
Net earnings (loss)	(.21)	.13

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

The Pizza Inn, Inc. and Subsidiaries

	Year Ended December 31	
	1970	1969
COMMON STOCK		
Balance at beginning of year	\$ 3,089,614	\$ 498,459
Issued in connection with public offering - 280,000 shares in 1969	-	1,582,233
Issued in connection with acquisitions other than poolings (1970-53,000 shares, 1969-247,194 shares) - Note B	198,750	1,008,922
Recapitalization from Common Stock without par value to \$1 par value Common Stock	<u>(1,766,599)</u>	-
	BALANCE AT END OF YEAR	\$ 1,521,765
		\$ 3,089,614
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	\$ 814,853	\$ 23,500
Adjustments related to public offering	-	527,411
Adjustments related to acquisitions - Note B	66,250	263,942
Adjustments related to recapitalization	<u>1,766,599</u>	-
	BALANCE AT END OF YEAR	\$ 2,647,702
		\$ 814,853
RETAINED EARNINGS		
Balance at beginning of year	\$ 195,446	\$ 72,388
Net earnings (loss)	(305,125)	163,560
Adjustments related to acquisitions - Note B	-	(40,502)
	BALANCE AT END OF YEAR	\$ (109,679)
		\$ 195,446
TREASURY STOCK - at cost		
Balance at beginning of year	\$ 63,747	\$ -
Sale of certain operating locations for Common Stock (1970-49,575 shares, 1969-30,000 shares)	96,781	63,747
Foreclosure on certain indebtedness where Common Stock was collateral - 12,400 shares in 1970	<u>75,797</u>	-
	BALANCE AT END OF YEAR	\$ 236,325
		\$ 63,747

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

The Pizza Inn, Inc. and Subsidiaries

	Year Ended December 31	
	1970	1969
SOURCE OF FUNDS		
Net earnings (loss) before extraordinary item in 1970	\$ (376,370)	\$ 163,560
Depreciation and amortization - generally by use of the straight-line method and based on estimated useful lives	304,505	149,463
Decrease (increase) in deferred income taxes - Note D	33,695	(19,842)
Increase (decrease) in deferred income from franchise sales - Note A	(73,969)	61,699
TOTAL FROM OPERATIONS	(112,139)	354,880
Extraordinary item - gain on sale of certain restaurants, less applicable income taxes of \$23,000	71,245	-
Increase in long-term debt	314,752	676,082
Decrease (increase) in working capital	2,813,922	(832,701)
Proceeds from public offering of Common Stock	-	2,109,644
Issuance of Common Stock in connection with acquisition	265,000	1,272,864
	<u>\$3,352,780</u>	<u>\$3,580,769</u>
APPLICATION OF FUNDS		
Additions to property, plant, and equipment less carrying value of such assets sold or retired (1970-\$340,367; 1969-\$77,874)	2,595,530	1,696,775
Increase in amounts due from officers	112,647	50,945
Increase in other assets (principally deposits and prepaid interest)	210,908	293,428
Additions to intangible assets	261,117	1,435,372
Acquisition of treasury stock	172,578	63,747
Retained earnings charge relating to acquisitions	-	40,502
	<u>\$3,352,780</u>	<u>\$3,580,769</u>
CHANGES IN WORKING CAPITAL		
Increase (decrease) in current liabilities:		
Notes payable	\$ (459,176)	\$ 732,000
Accounts payable - trade	630,727	1,355
Payable to building contractors	241,565	-
Accrued liabilities	583,698	257,987
Federal and state income taxes	(120,000)	42,375
Current maturities of long-term debt	827,662	348,405
	<u>1,704,476</u>	<u>1,382,122</u>
Increase (decrease) in current assets:		
Cash (includes current portion of financing reserve)	(1,315,832)	1,679,145
Receivables	(68,578)	(1,229)
Recoverable Federal Income Taxes	90,000	-
Inventories	114,905	416,596
Prepaid expenses and other current assets	70,059	120,311
	<u>(1,109,446)</u>	<u>2,214,823</u>
DECREASE (INCREASE) IN WORKING CAPITAL	<u>\$2,813,922</u>	<u>\$ (832,701)</u>

See notes to consolidated financial statements.

The Pizza Inn, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

Note A — Principles of Consolidation and Accounting for Franchise Income

The consolidated financial statements include the accounts of the Company and its subsidiaries. In consolidation, intercompany investments and balances and significant intercompany transactions have been eliminated. Certain items applicable to 1969 have been reclassified to conform with 1970 classifications.

Initial franchise fees, net of related commissions, have been reported as income when (1) such fees have been collected and the related franchise locations have opened for business or (2) the franchises have expired and the franchisees have forfeited the collected fee and related rights.

Note B — Acquisitions and Sales of Certain Operations

During 1969, the Company completed its purchase of the net assets and rights of Pizza Inn of America, Inc., to which it had previously granted the sole and exclusive right to sell Pizza Inn franchises. The Company issued 214,000 shares of its Common Stock in making this purchase and considers that such shares had a fair value of \$1,070,000 as of the agreement date. The excess, approximately \$998,000, of such amount over the value of tangible net assets acquired has been included in the consolidated financial statements as an intangible asset not subject to amortization as it is expected to have substantial continuing value.

Also during 1969, a sausage company and seven pizza restaurants were acquired for 71,571 shares of the Company's Common Stock, and those operations were included with the Company's as poolings of interests. Fifteen additional pizza restaurants were purchased for a total of 33,194 shares of Common Stock and \$204,000; operations of these purchased restaurants were included from the various dates of acquisition.

During 1970, the Company purchased ten pizza restaurants for a total of 53,000 shares of its Common Stock and cash of \$45,000 and purchased a frozen pizza business for cash and notes of \$40,000; such operations have been included with the Company's since dates of acquisition. Additionally, the Company sold nine operating restaurants, considered to be either marginal or located in areas difficult to supervise. Such sales resulted in a net gain of \$71,245, after income tax effect, which amount is reflected as a 1970 extraordinary item.

Note C — Notes Payable to Banks and Long-Term Debt

At December 31, 1970, notes payable to banks and long-term debt were comprised of the following:

	Due Within One Year	Due After One Year	Total
Notes payable to banks:			
First National Bank in Dallas	\$ 260,824		\$ 260,824(1)(4)
Other	30,000		30,000(2)
			290,824
Long-term debt:			
First National Bank in Dallas	569,089	—	569,089(3)(4)
Other	816,741	1,332,925	2,149,666(3)
	1,385,830	1,332,925	2,718,755
	<u>\$1,676,654</u>	<u>\$1,332,925</u>	<u>\$3,009,579</u>

(1) Land and interim construction notes for Company-owned restaurants; the Bank holds related deeds of trust as collateral and also holds a \$200,000 guaranty by the Company's President.

(2) A \$30,000 certificate of deposit is held as collateral.

(3) Generally five-year equipment installment notes related to substantially all Company-owned equipment and franchisee-owned equipment being financed by the Company. The notes generally have installment interest of 5% to 8% included in their face amounts and have as collateral security agreements on the equipment. In a number of instances, the principal amount of notes applicable to Company-owned equipment is in excess of the Company's cost therein.

(4) See Note I with respect to the acceleration of maturities of notes and long-term debt payable to the First National Bank in Dallas. Such acceleration of maturities has been reflected in the accompanying consolidated financial statements as of December 31, 1970.

Note D — Income Taxes

Accelerated depreciation methods have been used in certain instances for reporting taxable income, and appropriate provision has been made for the related deferred federal income taxes which will be payable in future years. Provision has also been made for the deferred income taxes applicable to the Company's deferral of income from initial franchise fees and other timing differences between financial and tax reporting.

The Company's 1970 operations reflect recognition of a \$90,000 credit for refundable federal income taxes relating to amendment of certain prior tax returns.

As a result of its 1970 operations, the Company has an operating loss carryforward in excess of \$300,000 available for application in future years.

Note E — Stock Options

Stock option plans, both qualified and non-qualified, for officers, key employees, and an option (for 5,000 shares) granted in connection with an acquisition, provide for options to be exercisable at market prices at dates of grant over a period of five years therefrom, at which later date the unexercised options shall expire. At December 31, 1970, there were Common Stock options outstanding on 38,100 shares at prices ranging from \$9.00 to \$10.00 a share; an additional 78,900 shares were reserved for future grants under the qualified plan.

During January 1971, all options, except for three options for a total of 5,800 shares, were canceled, and options, for a total of 79,600 shares, similar to those described above were issued to certain officers and employees at an option price of \$2.125 a share. The following summarizes and shows the effect of such January 1971 transactions:

	Qualified Plan		Non-Qualified Plan	
	No. of Shares	Exercise Price Per Share	No. of Shares	Exercise Price Per Share
Outstanding at Dec. 31, 1970	21,100	\$10.00	17,000	\$9.00 to \$10.00
Canceled in January 1971	(20,300)	10.00	(12,000)	10.00
Issued in January 1971	13,600	2.125	66,000	2.125
Outstanding at Jan. 31, 1971	14,400	2.125 to 10.00	71,000	2.125 to 9.00
Additional shares reserved for future grants under the plan	85,600		Not Applicable	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 1970

Note F - Commitments

Substantially all of the real property occupied by the Company is leased for terms ranging up to 20 years. Based on leases in effect at December 31, 1970, lease payments for restaurants, warehouses, and offices will be approximately \$1,450,000 during 1971 (including \$33,500 applicable to closed operations); the total aggregate lease commitment amounts to approximately \$19,000,000 (including \$412,500 applicable to closed operations). With respect to closed operations, the Company attempts to renegotiate lease terms or sublease the properties where possible; however, in many instances, these are short-term arrangements which do not run for the entire lease term.

Note G - Contingent Liabilities

In connection with certain sales of equipment to franchisees and related financing, the Company is contingently liable to various financing institutions as the guarantor of those franchisees' obligations. At December 31, 1970, such contingent responsibility amounted to approximately \$133,000. The Company has also guaranteed the realty lease obligations of certain franchisees; related aggregate rentals amount to \$323,000 a year and amount to a total aggregate commitment of approximately \$4,954,000 at December 31, 1970.

In connection with a public offering of Common Stock in 1969, a Common Stock Purchase Warrant for 20,000 shares of Common Stock at \$10.80 a share was issued to the Underwriters. The Company agreed that it would file, at its cost, a post-effective amendment to the Registration Statement covering the shares of Common Stock issuable upon exercise of the Warrant which will expire in 1974.

Lawsuits pending or threatened against the Company at December 31, 1970, involved aggregate alleged damages of approximately \$350,000. As of August 20, 1971, substantially all of such lawsuits had been settled for approximately \$30,000.

Note H - Due From and Certain Arrangements With Officers

At December 31, 1970, Mr. F. J. Spillman, President, and his brother, Mr. R. L. Spillman (not an officer of the Company), had indebtedness to the Company amounting to \$226,720; such amount was unsecured. Of that total amount, \$199,997 was due from Mr. F. J. Spillman. This indebtedness arose, for the most part, during 1970 as a result of transactions with franchised locations owned either wholly or partially by Mr. F. J. Spillman.

During March 1971, as a \$225,157 payment on their indebtedness, Mr. F. J. Spillman and Mr. R. L. Spillman transferred, to the Company, their ownership equity in certain real estate; the Company operates restaurants on these properties. Such real estate was appraised (by Mr. Wayne Clements, Dallas, Texas) at \$600,235; related mortgage and other indebtedness amounted to \$375,078.

Mr. F. J. Spillman and Mr. R. L. Spillman each hold one of the original "key" franchises issued by the Company. Under this type of franchise, the franchisee has the right to open any number of additional restaurants outside the specified territory or apart from the specified location without payment of an additional franchise fee so long as the additional locations do not conflict with other franchise arrangements or other operations of the Company.

Note I - Certain Subsequent Events

On March 9, 1971, the Company was advised by the First National Bank in Dallas that, "The Bank, at its option under the terms and conditions of that certain Loan Agreement dated May 14, 1970, as amended by Letter Agreement dated October 12, 1970, has the right to declare the . . . indebtedness due and payable . . . The Bank on March 8, 1971, exercised this option and has declared the entire indebtedness due and payable in its entirety . . . we now make demand of you for the payment of this entire indebtedness . . ." On March 21, 1971, the Company issued the following press release, "The Pizza Inn, Inc. announced that it is experiencing a liquidity crisis and that First National Bank in Dallas has accelerated all indebtedness owing to it by Pizza Inn, which aggregated approximately \$807,000 as of March 12, 1971 . . ." As of August 20, 1971, such acceleration of maturities continues in effect, and the Company has agreed to sell all properties in which the Bank has a security interest and to apply the net proceeds therefrom to reduce its indebtedness to the Bank. As of July 31, 1971, the Company's indebtedness to the First National Bank in Dallas amounted to \$711,811 plus accrued interest.

During March 1971, the Company and Pizza Hut, Inc. (a non-affiliated Kansas-based company) reached an agreement in principle whereby the Company would be acquired by Pizza Hut. When the acquisition agreement was terminated without completion in June 1971, the Company sold, at approximate book value, twenty-one operating restaurants to Pizza Hut in satisfaction of its indebtedness for \$400,000 which had been advanced by Pizza Hut during the negotiations. The twenty-one restaurants had aggregate sales of \$2,135,000 and contributed approximately \$170,000 (before income taxes) to the Company's consolidated operating results for 1970.

Further, subsequent to December 31, 1970 and prior to August 20, 1971, the Company sold eleven other operating restaurants and a sausage processing plant and closed ten additional restaurants. The Company's management considers all of these twenty-two sold and closed operations to have been marginal or difficult to supervise because of geographical location. Three of the sold restaurants were sold to officers of the Company for notes aggregating approximately \$170,000; these three sales resulted in a gain (before income taxes) to the Company of approximately \$34,000.

ACCOUNTANTS' REPORT

The Pizza Inn, Inc. and Subsidiaries

ERNST & ERNST

600 FORT WORTH NATIONAL BANK BLDG.

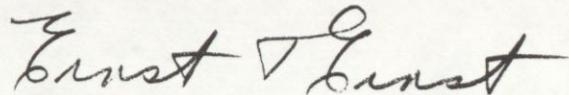
FORT WORTH, TEXAS 76102

Board of Directors
The Pizza Inn, Inc.
Dallas, Texas

We have examined the consolidated balance sheet of The Pizza Inn, Inc. and subsidiaries as of December 31, 1970, and the related consolidated statements of operations, changes in stockholders' equity, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination of the consolidated financial statements for the preceding year and expressed an unqualified opinion thereon.

As set forth in Note I to the consolidated financial statements, the Company has, subsequent to December 31, 1970, experienced a liquidity crisis, and its principal bank has accelerated the maturities of its loans to the Company. Under these circumstances, there is some uncertainty as to the Company's ability to continue operations as a going concern.

In our opinion, subject to the Company's ability to satisfactorily resolve its liquidity crisis and its ability to continue as a going concern, the accompanying balance sheet and statements of operations, changes in stockholders' equity, and source and application of funds present fairly the consolidated financial position of The Pizza Inn, Inc. and subsidiaries at December 31, 1970, and the consolidated results of their operations, changes in stockholders' equity, and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Fort Worth, Texas
April 8, 1971, except as to Note I
and the last paragraph of Note G,
as to which the dates are
August 20, 1971

DIRECTORS AND OFFICERS

F. J. Spillman
President and Director

John Tenery
*Executive Vice President
and General Manager*

Louis A. St. Romain
Vice President, Marketing & Sales

Ray E. Kelly
Vice President, Operations

Larry G. Hood
Controller

Roy L. Wise
Treasurer and Director

John Spillman
Director and Assistant Secretary

CORPORATE HEADQUARTERS

The Pizza Inn, Inc.
2930 N. Stemmons Freeway
Dallas, Texas

TRANSFER AGENT AND REGISTRAR

National Bank of Commerce,
1525 Elm Street,
Dallas, Texas

CORPORATE ATTORNEY
WYNNE, JAFFE, AND TINSLEY
LTV Tower
Dallas, Texas

AUDITORS
Ernst & Ernst
Fort Worth, Texas